

# INVESTOR ADVISORY PANEL

July 26, 2022

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Financial and Consumer Services Commission (New Brunswick)  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Nova Scotia Securities Commission  
Nunavut Securities Office  
Office of the Superintendent of Securities, Newfoundland and Labrador  
Ontario Securities Commission  
Office of the Superintendent of Securities, Northwest Territories  
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To: The Canadian Securities Administrators (CSA) and  
The Canadian Council of Insurance Regulators (CCIR)

**Re: TOTAL COST REPORTING**

On behalf of the Ontario Securities Commission's Investor Advisory Panel, I wish to thank the CSA and CCIR for this opportunity to comment on their proposed joint guidance relating to Total Cost Reporting (TCR) for Investment Funds and Segregated Funds ("the proposed TCR Guidance").

Overall, we are very supportive of this initiative. Cost transparency is critical for investors and policyholders (we will use "investors" to refer to both). It is only reasonable that they should know the full cost of the products and services they are buying. Moreover, it is essential that they receive substantially similar cost information regardless of what type of financial product or service they purchase, and regardless of regulatory jurisdiction under which the product or service falls. We are pleased, therefore, that this initiative aims to make cost reporting not only comprehensive but also standardized and consistent for investment funds and segregated funds, promoting greater clarity and reducing confusion for investors.

Our specific comments focus on two issues: (a) the crucial importance of presentation format, and (b) the need for swifter implementation of this initiative, as well as more industry-regulatory collaboration on systems design in the future to avoid unnecessary delays in achieving policy outcomes. We hope these comments will prove helpful.

**Content and format of the statement's first page should be prescribed**

To be effective, cost disclosure must be more than just accurate, complete and plainly worded. It also must be engaging and easy to grasp so that even consumers with limited financial knowledge will absorb it. This means the information must be presented in an appropriate context and sequence.

We believe an effective presentation should begin with just four basic data points that provide a "bottom line" view of costs and their impact on portfolio performance. Those data points are:

- A. The value of the investor's account at the beginning of the year;
- B. The net amount of all their deposits to and withdrawals from the account (if any) during the year;
- C. The total of all direct and indirect costs they incurred during the year to buy, sell and hold their financial products, along with all annual costs incurred for administration of their account; and
- D. The value of their account at the end of the year after deduction of the year's costs.

In our view, this is key basic information every investor should have, and we believe most will welcome it. We recognize that some investors – perhaps a majority of them – may be disinclined to examine a detailed cost breakdown or may find such detail confusing and overwhelming. However, that should not be viewed as a rationale for withholding the basic information, nor should it permit the basic information to be obscured through ineffective presentation.

Those who want only basic information should not have to hunt through a mass of data spread across the annual statement just to find the “bottom line” numbers A, B, C and D. All four numbers should be presented together, up-front and isolated from everything else. This spotlighting will promote basic awareness of costs and their impact on the value of the account. It also will facilitate cost comparability where two accounts are held at different firms or when a portfolio has been transferred from one firm to another.

We regard up-front, isolated presentation of the “bottom line” numbers as an essential element of effective cost disclosure, and therefore we urge regulators to standardize the presentation of these key data points in a prescribed format for the first page of all annual statements.

Subsequent pages should set out the detailed cost breakdowns contemplated in the proposed TCR Guidance (e.g., costs paid directly by the investor vs. costs deducted by fund managers; itemization of amounts paid out for administration, trading expenses, distribution, and ongoing advice; plus, in the case of segregated funds, amounts paid to maintain capital guarantees; etc.). Investors who wish to examine and dig into this comprehensive information will, no doubt, find it useful for assessing or monitoring costs, measuring the impact of various costs on portfolio performance or in assessing the value of the advice they receive.

We anticipate that investors seeking this level of understanding will comb through their annual statements quite thoroughly. For this reason, we do not feel it is essential for the format of the detailed cost breakdown to be prescribed – though we do believe a standardized presentation format generally promotes clarity and better understanding. It should be sufficient if the detailed cost breakdown is accurate, complete and written in plain language.

As noted, however, the key to widespread investor awareness and understanding of costs lies in placing the “bottom line” information at the statement’s front end and highlighting it there in a simple and straightforward context uncluttered by other information that may distract, confuse or overwhelm.

Further, we believe that, without such an up-front format being mandated, it is unlikely to be adopted industry-wide. This was in fact borne out with the rollout of CRM2, where no format was prescribed, and where the industry did not develop any standardized approach to reporting. Instead, firms utilized a wide array of idiosyncratic presentation layouts that proved ineffective in advancing investors’ awareness and understanding of costs.

Therefore, this time, it would be preferable if regulators prescribe the content and general format of the annual statement’s first page in order to optimize its utility and effectiveness as a cost disclosure mechanism.

## **Transition period is too long and points to a need for systemic changes**

Often in the past we have commented on the absence of an appropriate sense of urgency in regulators' implementation of investor protection initiatives. The proposed December 2025 implementation date for Total Cost Reporting – an initiative in the works since at least 2016 – offers a prime example of that deficiency.

We realize some technical hurdles must be overcome to implement TCR. We also appreciate that modifying the industry's software systems to meet new regulatory requirements can't be completed without a final set of regulations. However, it's important to remember, too, that the aim of this initiative is not vague or amorphous. The objective of TCR is abundantly clear. Furthermore, much of the data in question already gets captured in existing systems. All TCR will require is some sort of aggregation of this data – nothing more complicated than that.

Given these known elements, it should be possible (and not overly burdensome) for industry to move forward substantially on TCR systems design while regulations are being finalized and ministerial approvals obtained. If this design work is appropriately resourced and undertaken with due regard for incorporating nimbleness as a design feature, we see no reason why 18 months would be needed afterward for additional adjustments.

Indeed, the industry has recently demonstrated tremendous agility in response to the COVID-19 pandemic. Significant operational changes were prompted by rapidly evolving conditions amidst unprecedented uncertainty, yet the industry was able to respond to these challenges in a matter of mere weeks. Industry has proved it can overcome technological hurdles swiftly when necessary. That same capability and resolve should now be applied to the TCR project.

It should be kept in mind as well that TCR is not meant to drive competitive advantage, so there will be no need for industry players to develop proprietary solutions. Firms should be able to pool their resources and engage service providers together. Presumably, this will speed up the work, reduce the cost of getting it done, and help avoid a scramble for service provider availability.

We therefore urge regulators to reconsider the proposed transition period in light of these possibilities, and work with industry to expedite TCR implementation with an aim of completing it by December 2024. We reiterate that this investor protection measure is long overdue.

In addition, we recommend reviewing the current practice of policymakers depending entirely on industry to design and build systems critical to the success of regulatory reforms and initiatives.

This dependency creates a host of potential weaknesses when industry lacks enthusiasm for, or outright opposes, a regulatory change. In those situations, industry-induced delays are common at the project's conceptual stage – often manifested by contentions that the project is not technologically feasible, that its objectives are too vague or overreaching, that the cost of implementing it will be greater than the benefit to be derived from it, or that it will place too great a burden on the industry's resources. The project can be further hobbled by industry insistence on an overlong implementation period.

Wholesale dependency on industry to design and build these systems also carries with it an ongoing post-implementation risk of regulators effectively being unable assess the validity of industry claims about the system's functionality or reliability.

These are not risks and vulnerabilities that regulators ought to perpetuate, especially if policy outcomes and regulatory compliance increasingly will be systems-driven in future. Therefore, it seems unwise to maintain the current process in which regulators leave critical architecture to be created entirely by one set of stakeholders, who may not be favourably disposed toward the architecture's purpose.

We urge the CSA to explore alternatives, including more collaborative processes for operationalizing future systems-dependent regulatory initiatives aimed at enhancing investor protection. This collaboration should focus on ensuring appropriately robust and timely development of those systems. It also should encourage adoption of common technological standards across the industry – a measure that would provide greater consistency and enhanced quality of service for investors while also laying groundwork for improved regulatory oversight by facilitating the inter-operability of systems utilized by regulators and industry.

Once again, thank you for this opportunity to comment on the proposed TCR Guidance. We will be pleased to discuss this topic further if you require any clarification or elaboration on our recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Neil Gross".

Neil Gross  
Chair, Investor Advisory Panel